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Message Text

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14
ACTION EB-07

INFO OCT-01 ARA-10 ISO-00 AID-05 CIAE-00 COME-00 FRB-01

INR-07 NSAE-00 USIA-15 TRSE-00 XMB-04 OPIC-06 SP-02

CIEP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04

CEA-01 H-02 L-03 PA-02 PRS-01 AGR-10 /109 W
---------- 106855
R 031500Z MAR 76
FM AMEMBASSY KINGSTON
TO SECSTATE WASHDC 359

UNCLAS KINGSTON 0922

E.O. 11652: N/A
TAGS: ECON, EFIN, JM
SUBJECT: GOJ ANNOUNCES STIFF NEW ECONOMIC MEASURES

REFERENCE: 75 KINGSTON 3410 AND KINGSTON 4060

1. SPEAKING BEFORE PARLIAMENT FINANCE MINISTER COORE ANNOUNCED A SERIES OF NEW ECONOMIC MEASURES TO DEAL WITH JAMAICA'S DETERIORATING ECONOMIC SITUATION. THE NEW MEASURES ARE SUMMARIZED BELOW: (ALL FIGURES J$).

2. TAXATION

A WIDE RANGE OF NEW TAXES WAS OUTLINED WHICH WERE DESIGNED TO RAISE (J$81.25 MILLION IN ADDITIONAL REVENUES. THESE INCLUDED INCREASES IN CONSUMPTION DUTIES ON LIQUOR, CIGARETTES, AND A NUMBER OF OTHER CONSUMER GOODS, CAPITAL GOODS, AND HIGHER INCOME AND PROPERTY TAXES. (DETAILS BY AIRGRAM). NEW TAXES EFFECTIVE FEBRUARY 27.

3. INTEREST RATES

ALSO EFFECTIVE IMMEDIATELY BANK RATE WAS RAISED FROM 8 TO 9 PER CENT, AND PRIME RATE TO 11 PERCENT. INTEREST RATES ON
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SAVINGS ACCOUNTS WERE INCREASED FROM 68 PERCENT. COMMERCIAL

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BANK RESERVE REQUIREMENTS WERE INCREASED FROM 23.5 TO 24.5
PERCENT EFFECTIVE MARCH 9 WITH ADDITIONAL INCREASES EXPECTED
DURING YEAR TO 26.5 PERCENT. NO INCREASES IN PERSONAL CONSUMPTION
LOANS WOULD BE PERMITTED AND AVAILABLE FUNDS WOULD BE CHANNELED
TO BUSINESS AND MANUFACTURING SECTORS.

4. BALANCE OF PAYMENTS

NET FOREIGN RESERVES AS OF FEBRUARY 12 HAD FALLEN TO J$36.6
MILLION. COORE STATED CHIEF CAUSES WERE DECLINE IN SUGAR PRODUCTION,
CUT BACK IN BAUXITE AND ALUMINO PRODUCTION, AND ISLAND'S
FAILURE TO COMPETE IN CARICOM MARKET. IN 1975 BAUXITE AND
SUGAR EARNED J$300 MILLION, IN 1976 EARNINGS ANTICIPATED AT ONLY
'$180 MILLION. EFFORT TO HOLD 1975 IMPORTS AT J$950 MILLION
HAD FAILED AND FINAL TOTAL EXPECTED TO BE IN EXCESS OF J$1
BILLION. FOREIGN BORROWING HAD NOT REACHED TARGETED LEVELS, NO
MAJOR NEW INVESTMENT HAD OCCURRED, AND CAPITAL FLIGHT ESPECIALLY
IN TOURISM SECTOR HAD REACHED "EPIDEMIC PROPORTIONS."

5. TO DEAL WITH SITUATION BANK OF JAMAICA HAD OBTAINED 3 MONTH
J$30 MILLION STANDBY FACILITY FROM COMMERCIAL BANKS OPERATING
IN JAMAICA (KINGSTON 672). FUNDS WOULD BE
AVAILABLE IN TWO BRANCHES, FIRST TO BE DRAWN DOWN THIS MONTH.
AS EXPANSION OF INTER REGIONAL CARICOM CREDIT ARRANGEMENTS HAD
BEEN ARRANGED AND JAMAICA WOULD INCREASE ITS CREDITS TO OTHER
CARICOM MEMBERS FROM $4 TO $5 MILLION, AND OTHER CARICOM MEMBERS
WOULD INCREASE CREDITS TO JAMAICA FROM $4 TO $9 MILLION.
NEW REGIONAL "SAFETY NET" PROPOSAL IS ALSO TO BE CONSIDERED
BY CARICOM FINANCE MINISTERS ON MARCH 25. GOT ALSO EXPECTS APPLY
FOR ASSISTANCE TO IMF OIL FACILITY.

6. TRAVEL ALLOWANCES

COORE STATED JAMAICAN'S SPECT J$43 MILLION ON TRAVEL LAST YEAR
WHICH INDICATED ALLOWANCES BEING ABUSED ESPECIALLY BY BUSINESS.
PERSONAL TRAVEL ALLOWANCES WOULD REMAIN SAME BUT BUSINESS
TRAVEL WOULD BE RESTRICTED TO 75 PERCENT OF 1975 AMOUNT.
EMIGRANTS COULD CONTINUE TO TAKE OUT $10,000 IN FIRST YEAR,
BUT AMOUNTS IN FOURTH AND SUCCEEDING YEARS WERE CUT FROM
$50,000 TO $10,000, AND $25,000 TO $10,000 RESPECTIVELY.
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7. 1975/1976 BUDGET

REVENUE SHORTFALL OF $16 MILLION INCLUDING FAILURE TO OBTAIN
NEW LOANS HAD CAUSED DEFICIT OF $103 MILLION. DEFICIT TO BE
FINANCED BY TREASURY BILLS $25 MILLION AND BY BANK OF JAMAICA
$78 MILLION. BECAUSE LATTER PROCEDURE INFLATIONARY, 1976/1977
BUDGET COULD NOT BE FINANCED IN SAME FASHION WHICH WAS REASON

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FOR MASSIVE NEW TAX INCREASES SINCE BASIC SOCIAL PROGRAMS HAD TO BE MAINTAINED.

8. INCOMES POLICY

NEW WAGE GUIDELINES EFFECTIVE MARCH 1. EMPLOYEES EARNING UP TO $12,000 WOULD BE ELIGIBLE FOR $10 A WEEK INCREASE, THOSE EARNING BETWEEN $12-16,000 WOULD BE ENTITLED TO $5 PER WEEK, AND THOSE EARNING MORE THAN $16,000 NO INCREASE. ONLY EXCEPTION TO $10 LIMIT WOULD BE IF COST OF LIVING ADJUSTMENT EXCEEDED THAT AMOUNT. REDUCED WORKING HOURS BELOW 40 HOURS WOULD BE REGARDED AS PROPORTIONATE WAGE INCREASE. GUIDELINES ARE RETROACTIVE TO CONTRACTS AND PAY PERIODS EXPIRING AFTER AUGUST 31, 1975 AND BEFORE MARCH 1, 1976. (FYI: BAUXITE WORKERS APPARENTLY NOT INCLUDED SINCE CONTRACTS EXPIRED APRIL/MAY 1975). DETAILS ON GUIDELINES AND LEGISLATIVE AMENDMENTS FOLLOW BY AIRGRAM.
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